

Maximize Federal Revenue - Food Stamp Employment and Training Revenue

The Human Services Department (HSD) should take advantage of changes in federal legislation that allow states to allocate more program and administrative costs to federal grants thereby reducing the burden on state taxpayers.

BACKGROUND

Many of the Human Services Department's (HSD) programs are funded in large part by federal grants. For example, benefits under the Food Stamp Program (FSP) are entirely federally funded, although the federal government pays for 50 percent of administrative costs and 50 percent of employment and training costs if those costs exceed the federal grant award.

New Mexico received a federal grant for employment and training of more than \$637,000 in FY03. If the state were to spend over the amount of the federal grant, the federal government would match the amount exceeding the grant at 50 percent. The FSP is an open-ended federal entitlement program; administrative costs are "uncapped," meaning the federal government does not limit the amount it will match.

States are required to develop a federally approved Employment and Training (E&T) program as part of their FSP. New Mexico's E&T program serves food stamp recipients in all 33 counties. Each recipient must participate in the E&T program unless they are determined to be exempt. Failure to comply with the work requirements of the program may result in the loss of benefits.

The federal government also funds nutrition education and many other food assistance programs. In 2003, the food stamp caseload increased by 13.8 percent over April 2002, reaching

75,015. New Mexico's federal fiscal year (FFY) 2003 food stamp program and administrative budgets are expected to exceed \$200 million. The program budget is 100 percent federally funded. If the caseload continues to grow at the current rate, HSD expects to issue more than \$182 million in benefits. The administrative budget to support the food stamp program is matched by the federal government at a 50 percent match rate. The FY03 total administrative budget is \$21,457,603.

The Farm Bill

As a condition of administering a food stamp program, states must operate an approved Employment and Training (E&T) program. Significant changes to the way E&T grants are allocated and how the funds can be spent were made through the Farm Security and Rural Investment Act of 2002 — commonly known as the Farm Bill.

Many complex and cumbersome regulations regarding the participation in federally funded employment and training programs by able-bodied adults without dependents were eliminated. Before the rules were changed, 22 states were unable to spend all of their E&T grant funds. Previously, states funded federally mandated programs with state matched dollars because so many people were ineligible for participation in the entirely federally funded programs. In 2003, New Mexico spent just under \$870,000 in state general revenue on such programs because it could not spend all of its \$637,470 federal E&T grant.

FINDINGS

Under the Food Stamp program, states must submit expenditure reports to the federal Food and Nutrition Services (FNS) for approval, and the portion of the administrative costs that are funded by the general fund must be appropriated by the Legislature.

The federal government may impose monetary sanctions on states that have error rates exceeding the national average of benefits distributed in error to families and individuals. Washington also awards performance bonuses if quality control errors are below a specified threshold.

Included in the E&T state plan is a two-year operating budget that includes annual costs of the E&T program by category of funding. The categories of funding include the 100 percent federal grant, expenditures that exceed the 100 percent and are matched by the state at 50 percent, and participant-reimbursed costs such as transportation and dependent care, which are matched by the state at 50 percent.

Until the Farm Bill passed, 80 percent of the state's employment and training grant money had to be used to train or employ able-bodied adults without dependents, who were required to work 20 hours a week or participate in an approved activity to maintain their food stamp eligibility. Many states, including New Mexico, applied for and received waivers to exclude some able-bodied adults with dependents from having to participate. For instance, waivers were granted if a county or city had an unemployment rate over 10 percent, as well as for individuals residing on certain Indian reservations or pueblos.

During FY03, 1,844 of 3,460 eligible New Mexico able-bodied adults with dependents were exempt from participation. Between November 2002 and April 2003, the entire population of such New Mexicans qualified for exemption under a federally approved waiver. This made it increasingly difficult for the state to spend its E&T grant money because there were so few required to participate in an approved activity.

During the course of the year, there were 30,138 non-able-bodied New Mexicans participating in mandatory E&T programs. However, only 20 percent of the federal grant money was available to pay for the costs. Although grant money could not be spent on these individuals, the state still had to pay for employment and training

services. Not only did the state have to spend money from the general fund to cover E&T services, but the federal government reduced the grant amount from \$1,630,421 in FY02 to \$637,470 in FY03 because the state had not spent all of its grant money in the two previous fiscal years.

HSD contracts with New Mexico Works regional contractors to provide food stamp E&T services to E&T mandatory work participants. These contractors also serve Temporary Assistance for Needy Families (TANF) eligible recipients. The E&T agreements with regional contractors totaled \$1,738,918 during FFY2003. Because of the previous funding restrictions for able-bodied adults with dependents, regional contracts were charged to FNS at the allowable 50:50 match rate. In FFY 2003, \$869,457 from the state's general fund will be spent to draw down the additional \$869,457 of the federal grant.

Now that federal food stamp regulations have been altered to increase support for E&T programs, state taxpayers are on the hook for

less money to fund those programs. That means that a revised E&T plan should be resubmitted to FSN to adjust the budget categories.

RECOMMENDATIONS

HSD should submit the FFY2003 and FFY2004 state plan to FNS for the Food Stamp Program's employment and training efforts to ensure that work program contracts are funded to the fullest extent possible by the federal government — saving New Mexico taxpayers.

The FFY2004 E&T plan must be submitted to FNS by August 15, 2003.

HSD should resubmit FFY2003 quarterly fiscal reports to reflect increased use of federal funds, claim employment and training expenditures and reduce use of general funds for food stamp employment and training programs.

FISCAL IMPLICATIONS

By revising the state plan for E&T, the state can decrease its reliance on the general revenue fund under the Food Stamp program as follows:

Amount currently funded from the general fund	869,459
Total E&T contract expenditures	1,738,918
Less federal funds available under the 100% program	<u>(637,470)</u>
Remaining E&T expenditures	1,101,448
Less federal funds available under the 50% program	<u>(550,724)</u>
Amount needed from the general fund	<u>550,724</u>
Annual savings to the general fund	<u><u>318,735</u></u>

Estimated Fiscal Impact (Dollars in Thousands)						
Fiscal Year	General Fund Cost	General Fund Savings	Other Funds Cost	Other Funds Savings	Net Cost/Gain To General Fund	Change in FTE
2004		318.7			318.7	
2005		318.7			318.7	
2006		318.7			318.7	
2007		318.7			318.7	
2008		318.7			318.7	
TOTAL		1,593.5			1,593.5	

ENDNOTES

1. Food Stamp Program, FY 2003 E&T Allocation Table:
http://www.fns.usda.gov/fsp/rulesmemo/02/fy2003_et_alloc_table.htm
2. New Mexico Works Program, Food Stamp Employment and Training State Plan, Fiscal Year 2003, Revised October 2002. pg.1
3. New Mexico Human Services Department, Monthly Statistical Report, May 2003 Issue, pg. 1.
4. New Mexico Human Services Department, Monthly Statistical Report, May 2003 Issue, pg.48.
5. USDA, Food and Nutrition Services, Program and Budget Summary Statement, Part A Budget Project, August 15, 2002.
6. Federal Register: June 19, 2002 (Volume 67, Number 118)
7. New Mexico Works Programs, Food Stamp Employment & Training State Plan, FY 2003, Table 5.
8. Code of Federal Regulations 273.24(f)
9. New Mexico Works Programs, Food Stamp Employment & Training State Plan, FY 2003, Table 1
10. David Short, FNS, Region VI State Desk Program Manager, New Mexico Management Evaluation, April 2003 Exit Interview.